

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE JOHN TAOLO GAETSEWE COUNCIL ON THE FINANCIAL
STATEMENTS AND PERFORMANCE INFORMATION OF JOHN TAOLO GAETSEWE
DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the John Taolo Gaetsewe District Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 63.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the John Taolo Gaetsewe District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the John Taolo Gaetsewe District Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Going concern

9. Note 56 to the financial statements indicated that the John Taolo Gaetsewe District Municipality incurred a net loss of R4 831 794 for the year ended 30 June 2009 and, as of that date, the municipality had non-cash-backed reserves amounting to R81 368 163. These conditions, along with other matters as set forth in note 56, indicated the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

Contingent liability

10. With reference to note 51 to the financial statements, the municipality is the defendant in a claim against the council to the amount of R6 589 143. The municipality is opposing the claim. The ultimate outcome of the matter cannot be determined at this stage and no provision for any liability that may result has been made in the financial statements.

Unauthorised expenditure

11. As disclosed in note 43.1 to the financial statements, unauthorised expenditure to the amount of R1 217 916 was incurred due to overspending of the main divisions within the budget.
12. As disclosed in note 43.1 to the financial statements, unauthorised expenditure to the amount of R1 062 548 was incurred, due to conditional grants being used for purposes other than intended.

Fruitless and wasteful expenditure

13. As disclosed in note 43.2 to the financial statements, fruitless and wasteful expenditure to the amount of R704 169 was incurred due to unjustifiable expenditure on the municipal name change.

Restatement of corresponding figures

14. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of a change in accounting policy during 2009 in the financial statements relating to statutory funds, provisions and reserves.
15. As disclosed in note 39 to the financial statements the corresponding figures for 30 June 2008 have been restated as a result of an error discovered during 2009 in the financial statements relating to property, plant and equipment and long-term liabilities.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in other information included in the annual report

16. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

17. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information as included in appendix E1 does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

18. Reports were not submitted to the Member of the Executive Council for Local Government and the Auditor-General on the unauthorised expenditure, and fruitless and wasteful expenditure incurred as required by section 32(4).
19. Payments were not always made within 30 days from receipt of the invoices as required by section 65(2)(e).
20. Interest has not been charged on outstanding debts as required by section 64(2)(g).
21. The municipality did not submit all the reports within the required time frame as required by section 71(1).

Municipal Systems Act

22. The municipality have not collected revenue due to the municipality as required by section 96 of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Governance framework

23. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

24. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	X	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments		X

No.	Matter	Y	N
	resulting from the audit.		
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		X
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	X	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	X	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	X	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	X	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		X
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	X	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	X	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	X	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		X
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	X	

No.	Matter	Y	N
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	X	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	X	
14.	SCOPA/Oversight resolutions have been substantially implemented.		n/a
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 of the MFMA.	X	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	X	

Quality of financial statements

25. The material amendments to the financial statements was due to non-accounting of some accruals, duplication of revenue and expenditure from the interdepartmental costing system and wrong disclosures pertaining to unauthorised and irregular expenditure. The amendments were identified by the auditors during the audit and not by the internal controls of the municipality. This situation could have led to a qualified opinion had the financial statements not been adjusted during the audit. Understanding of the financial reporting objectives must be created with staff of the municipality to mitigate the risks over financial reporting. Furthermore, there should also be a discipline to produce monthly financial statements and management information for review by management.

Risk management, internal control and governance

26. The audit committee did not substantially fulfill their responsibilities due to the inadequacy of communication with internal and external auditors, lack of review of financial statements and inputs into corrective action on policy implementation issues.

27. Various policies were in draft format. Council should consider and approve these policies for implementation.

28. Management should implement monitoring controls on reporting responsibilities to prevent non-compliance with legislation.

29. The asset system procured was problematic and the municipality had to revert back to the previous system. Management should ensure full integration of the asset system into the financial information system. The municipality did not have reliable information systems for recording and reporting on commitments and accruals.

Reporting of performance information

30. A performance report was not compiled although the function has been delegated by the municipal manager. Management should ensure that training and monitoring takes place within this area of responsibility.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

31. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

32. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

33. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
34. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
35. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

36. The entity has not reported performance against predetermined objectives, as required by section 121(3)(c) of the MFMA and as a result we could not verify the reliability and consistency of performance information

APPRECIATION

37. The assistance rendered by the staff of the John Taolo Gaetsewe District Municipality during the audit is sincerely appreciated.

Auditor-General

Kimberley

1 February 2010



AUDITOR-GENERAL
SOUTH AFRICA